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Malawi

Tobacco and Products

Annual

2000

Cleared by:

Fred Kessel

U.S. Embassy

Drafted by:

Carol Ngugi

Report Highlights:

Tobacco is Malawi's leading export crop providing over 60% of the country's export earnings. Burley type, which accounts for over 80% of tobacco grown, far exceeded expectations in terms of volume in 1999 season, at an average price of US \$ 1.38 /kg. Year 2000 burley harvest will be greater than that of 1999 assuming normal weather and a stable currency.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Nairobi [KE1],

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Executive Summary

Malawi is a small (population 12 million) country that exports more than 98 percent of the tobacco it produces. Tobacco is Malawi's leading export crop, typically providing over 60% of the country's total export earnings. Malawi is heavily dependent on tobacco earnings for growth and development. The macro-economic problems experienced in Malawi are due to many factors, including the drop in export earnings. However, realizing that tobacco trade might continue to shrink, smallholder associations are encouraging crop diversification, including crops such as paprika, cotton, and coffee. Total tobacco production was a record high in 1997; declined by 15 percent in 1998. 1999 production was relatively the same as for the previous year and is expected to increase by 5-6 percent in year 2000.

Groups involved in Tobacco:

GOM - Government of Malawi

MOA - Ministry of Agriculture and Irrigation

TCC - Tobacco Control Commission -- GOM Agency

ARET - GOM Agricultural Research and Extension Trust

OPTICHEM - GOM Fertilizer and Chemical Parastatal

ADMARC - Agricultural Development and Marketing Corporation -Admarc is a GOM parastatal

Clubs - Groups of 15-25 smallholder farmers working together to market their burley tobacco.

TAMA - Tobacco Association of Malawi -- Farmer Group

TEAM - Tobacco Exporter Association of Malawi

Production

Total PS & D IS SUM OF ALL TOBACCO TYPES			
Marketing Year (Calendar)	1998	1999	2000
		(Estimate)	
Area Planted-Hectares	122,700	122,700	113,823
Prod.-Farm Weight-MT	134,390.00	134,389.00	142,050
Yield - Kilos/Hectare	1,095	1095	1247
Farm Weight Production	134,390	134,389	142,050
Dry Weight Production	96,081.2	85,166	89,895
Dry/Farm Conversion	71%	63%	63%
Beginning Stocks-MT	33,008	26,030	26,260
Production - Dry MT	96,081.2	85,166	89,895
Imports - MT	0	0	0
Total Supply	129,089	111,196	116,155
Exports-MT	121,200	102,430	161,050
Domestic Consumption	678	678	678
Ending Stocks - MT	26,030	26,260	7,010
Total Distribution-MT	147,908	129,368	168,378
Export/Total Supply - %	94%	92%	139%

TOTAL TOBACCO PRODUCTION

Our revised estimate of 1998 farm sales weight production is about 15 percent below the record 1997 crop. The actual production for 1999 is relatively the same as that of 1998. Decrease in production is attributed to the high cost of production and the low prices offered. Some of the growers are shifting to growing other crops like

maize and horticulture. Production in year 2000 may increase due to favorable weather and a stable currency.

The drop in 1998's production was caused by heavier than expected rains, a slightly reduced planted area, and lower use of fertilizer. Some observers noted that fertilizer use in some of the key tobacco areas dropped by almost 40 percent.

More than 150,000 small holders (with farms less than two hectares, and tobacco fields averaging about 0.2 hectare) participate in the burley tobacco sector. Besides the small holders, there are about 45,000 large and small estates involved in tobacco (all types) production.

Production Estimates

Our estimates are based on data from various sources, which do not always agree on magnitude or direction of production trends. Nevertheless, it is clear that the trend over the last thirty years has been rapidly going up until 1997, with a slight dip in 1998 and continuing in 1999. A gradual increase is expected in year 2000.

Tobacco Production Based on Auction Sales by variety, 1998, 1999 and prospects for 2000

Type	1998	1999	2000
Flue Cured			
Volume(Metric tons)	13,850	14,260	13000
Value (US\$ millions)	19.53	20.99	18.2
Burley			
Volume (Metric tons)	113,800	111,390	120,000
Value (US\$ millions)	147.52	153.79	138
NDDF			
Volume(Metric tons)	5740	7760	8400
Value (US\$ millions)	10.6	11.29	12.18
Sun/Air Cured			
Volume(Metric tons)	390	500	300
Value (US\$ millions)	0.59	0.71	0.33
SDF			
Volume(Metric tons)	610	480	350

Type	1998	1999	2000
Value (US\$ millions)	0.8	0.72	0.49
Total			
Volume(Metric tons)	134,390	134,390	142,050
Value (US\$ millions)	179.04	187.5	169.2

Source: Tobacco Control Commission and Auction Holdings Limited

Dry vs. Farm Sales Weight Conversions

In general, production estimates for all types of tobacco (except Oriental) are based on auction sales. Oriental tobacco is sold directly to an international leaf dealer, Limbe Leaf (Universal Leaf and Press Corporation). Auction data is given in green weight as presented in bales on the auction floor. After being purchased by the international leaf dealers, it is processed into strips, dried, and packed for export. The dealers do not publish data on a dry weight basis. Reportedly, some processors discard burley tobacco stems, while other pack the stems as requested by their customers. Not all processors are as efficient as others, and some types of tobacco vary widely in leaf weight and yield from year to year. As a result, conversion factors vary widely. Post has based the dry weight data on historical conversion factors, current conversion factors used by TCC, and on various estimates provided by the leaf dealers. In 1998, TCC revised its burley conversion factor from 68 to 70 percent. Today, the conversion factor is 62%.

Recovery rates in % (yield after processing) for 1998,1999 and prospects for 2000.

Recovery rates in % (yield after processing) for 1998,1999 and prospects for 2000.			
	1998	1999	2000
Flue Cured	75	67	67
Burley	70	62	62
NDDF	89	75	75
Sun/Air	98	73	73
SDF	89	76	76
Oriental	75	82	82

Production Locations

Tobacco was first grown (commercial Virginia-type varieties) in 1889 near Blantyre and Limbe in the southern region of Malawi. As production expanded to fill the south, it moved towards the central region (around

Lilongwe) and finally north towards Mzuzu. Tobacco is now grown all over Malawi, and the three auction floors are located at Limbe (South Malawi), Lilongwe (Central Malawi), and Mzuzu (North Malawi).

Other Sources of Production Estimates

Several GOM agencies generate production estimates, but only the Tobacco Control Commission is authorized to release official estimates. Many dealers, buyers, and market observers make unofficial estimates. Most of the onlookers base their estimates on the progress of the auction and the speed of the deliveries. After the auction is finished for the year, everyone revises their estimates to match the final results.

Crop Area

The distribution and ownership of arable land are very contentious issues in Malawi. Most of the arable land is used. As the population continues to rapidly expand (annual population growth estimates range from 2.5-3.5 percent), pressure on the land also increases. The average size of the smallholder farm is below one hectare which is too small, typically, to provide an adequate year-round supply of food for the entire family.

In November 1999, the Government of Malawi received the Land Reform Commission Report promising to redress land problems in view of population increase and environmental degradation. The report recommended measures which will enable the government implement a land policy in a fair and transparent manner. Among other recommendations, the report says Malawi's basic land law should be redesigned to allow for evolution of customary land law. This implies repealing of both the Land Act and the Registered Land Act.

On land scarcity experienced by the rural people, particularly those around the big estates, the Commission recommended restoration of all idle leasehold and freehold land to customary status for use by those without land.

Varietal Shifts -- Tobacco types

As shown above, there has been a big increase in burley tobacco production while flue-cured production continues to drop, and production of dark fire and air cured tobacco types have varied widely from year to year. Small holders find that the costs/benefits of growing burley tobacco far exceed any other type. Flue-cured tobacco types require more inputs, and relatively expensive coal or wood for curing. The curing costs are also higher for the dark fire cured types, and more labor intense for sun/air cured. Therefore most small holders only grow burley, while the estates continue to annually evaluate which tobacco type might have the best returns. In 1998, some of the estates tried dark-fired tobacco types.

Long-term Trends - Competition for Land

Malawi is a small densely populated (more than 225 persons per square kilometer) landlocked country. It is a very poor country (per capita income is well under U.S. \$250), and food security is a consistent concern. Maize (white corn) is the dominant food crop (planted on about 85 percent of the area devoted to food crops), and is planted almost everywhere. Maize is planted in some areas where other crops (such as sorghum, cotton, and millet) might have better yields and be more appropriate. Most of the arable land is under cultivation. Perhaps the only way to increase production is to intensify production techniques such as using more fertilizer and/or reducing the time land is left fallow.

Food crops include maize, peanuts (groundnuts), pulses, sorghum, millet, and various type of nuts. Cash crops include maize (but only about 15-25% of the maize crop enters commercial marketing channels), tobacco, tea, sugar, cashew nuts, macadamia nuts, sunflowers, cassava, etc. The dominant crops are only two -- maize as the food crop and tobacco as the cash crop.

Inputs

All required inputs (chemicals, fertilizers, etc.) are generally available, but because of the removal of the GOM's subsidies and a large devaluation of the Malawi kwacha (from about 15 to 25 to 42 kwacha to the dollar in 1998, after the tobacco auctions, many farmers have suffered from price "sticker shock". All the fertilizer and most other inputs, including sisal (burlap) bags for packing the leaf, are imported. Given Malawi's landlocked location, and high transportation costs, most inputs are very expensive. To help lower input costs, the GOM has removed import tariffs on most agricultural inputs.

Farmers are strongly encouraged to use fertilizer on tobacco to obtain good yields and good leaf quality. There are several fertilizer blends designed specifically for tobacco. These blends are high in potassium which is needed for good leaf color and size. Some farmers try to save by using maize fertilizer for tobacco, but the maize fertilizers are not rich enough in potassium.

Irrigation Use / Water Availability

Almost all of Malawi's tobacco is grown under rainfed conditions. Most of the flue-cured growers, (mostly large estates) and an increasing number of other tobacco growers, plant in dry fields and then add a bucket of water (about 7-10 liters) to each transplanted tobacco plant. Hopefully, that will be enough water to enable the plant to have a good start before the rains arrive in October/November. Most smaller growers, without resources to carry buckets of water or hoses around their fields, wait to transplant until the rains have started. Depending on the rain pattern, planting early before the rains may lead to better quality leaves.

Other Inputs - Seeds

Farmers are strongly encouraged to buy certified tobacco seed each year from registered seed sellers. Some farmers try to re-use old seed, but most want to take advantage of the new varieties that are being developed by ARET. The Ministry of Agriculture (MOA) and ADMARC have various support programs to ensure that farmers, especially the small estates and smallholder farmers, have access to quality seeds and tobacco varieties.

The tobacco seeds are produced by the National Seed, Cotton, and Milling Company (NSCM) which was purchased by Cargill in 1989. NSCM annually distributes about 1.5-2.0 metric tons of tobacco seed each year. Estates generally purchase tobacco seed from NSCM or from Agricultural Trading Corporation (ATC), a subsidiary of Auction Holdings Ltd (AHL). Small holders, in the past, would receive free seedlings from ADMARC. Now they buy them from private sector dealers, through various marketing clubs, or from estates. In addition to Malawi, some of NSCM's seeds are exported to tobacco groups in the surrounding countries.

PRODUCTION -- Yield and Area Estimates

The Ministry of Agriculture has started to develop an area series. However, it will be several years before they feel comfortable with releasing their estimates. There are few other sources of area data. Most stakeholders

work backward from production to derive area estimates.

Weather Patterns & Crop Quality

Most of the tobacco is seeded in nursery beds in August to September and then transplanted in the fields either before or after the start of the rains in October/November. The onset and duration of the rains vary from year to year, but generally it rains from October until mid-December. The rains generally begin in the southern regions of the country and move north. Unlike many tropical countries, Malawi has only one growing season each year.

The crop is picked in late December to March and the curing begins. The tobacco auctions start in April and run until all the tobacco is sold, usually by October.

Consumption

Cigarette Production

BAT, which owned the only tobacco factory in Malawi has discontinued production of cigarettes. The Company is now carrying out marketing and distribution services of the already manufactured cigarettes (Benson & Hedges, 555 State Express, Life, Ascot and Tom Tom).

Consumption, very low primarily due to low incomes, is not expected to show any major change in the near term.

With economic liberalization, most international brands are now available in Malawi at roughly one dollar per pack. While inexpensive compared to most markets (with high cigarette taxes), the imported brands are more expensive than the domestic ones.

Trade

Prices

The crop quality in terms of flavor has been good for many years but there are indications now of low nicotine content implying less flavor and consequently, lower quality.

The higher the flavor, the higher the price offered and vice versa. For instance, a price of \$0.80 cents to \$2.00/kg is offered for good quality burley tobacco compared to \$2-2.20/kg in 1999; for the low quality, the price is as low as \$.20/kg. Favorable weather experienced last year resulted in a good quality crop. Malawi's 1999 tobacco season ended on a positive note with burley production far exceeding expectations and prices well above those of last year. Cumulative statistics released in October by Auction Holdings Limited, reveal that burley crop weighed in at slightly over 111 million kilograms and drew an average price of US\$ 1.3806/kg. Total Foreign exchange earnings from burley amounted to nearly US\$ 154 million as compared with US \$ 148 million in 1998.

Several factors indicate that Malawi's year 2000 burley harvest will be greater than that of 1999, assuming normal weather and a stable currency. Malawi's currency remained stable throughout the tobacco Auctions in 1999 and appears to remain so in the early part of year 2000.

Auction floor price in 1998, 1999 and prospects for 2000(USc/kg)			
	Actual Price	Estimates	
	1998 Usc/kg	1999	2000
Flue Cured	140.97	147.23	140
Burley	129.65	138.06	115
NDDF	184.62	145.43	145
Sun/Air	149.51	140.23	110
SDF	130.11	151.24	140
Average export price for 1998, 1999 and prospects for 2000(USc/kg).			
	1998 Usc/kg	1999	2000
Flue Cured	235.29	200.11	170
Burley	240.13	265.18	230
NDDF	276.74	265.18	250
Sun/Air	250.4	262.78	190
SDF	247.31	210.57	150
Oriental	293.19	256.81	200
Year	Type	Average Price (USc/kg)	
1998	Burley	129.65	
	Flue cured	140.97	
	NDDF	184.62	
	SDF	130.11	
	Sun/Air	149.51	
1999	Burley	138.16	
	Flue Cured	147.23	
	NDDF	145.41	
	SDF	152.27	
	Sun/Air	135.58	
2000	Cured		
	Burley	97	
	Flue Cured	113	

The Tobacco Control Commission attributed the falling prices to intermediate buyers (IB) who buy tobacco readily from farmers at exploitative prices and at times by pass the auction, overproduction by Brazil hence, saturating the world market, anti-tobacco lobbies in the western world, illegal imports from the neighboring countries and poor presentation of tobacco to the buyers leading to price discounting.

Auction Results

Final Cumulative Summary on Tobacco Sales 1999

Final Cumulative Summary on Tobacco Sales 1999			
From 13th April, 1999 to 27th September, 1999.			
Tobacco Type	Weight Kg	Earnings US Dollars	Average US/Kg
Flue Cured	14,120,609	20,956,257.41	148.81
Flue Cured Stems	134,951	32,630.65	24.18
Burley	111,391,775	153789852	138.06
ND Main Leaf	7758505	11284978	145.45
Sun Cured	503,185	705594.97	140.23
SD Fired	475672	719394.94	151.24

Source: Auction Holdings Limited.

TRADE -- General

Malawi Tobacco Exports by country destination Calendar year - 1998

Malawi Tobacco Exports by country destination Calendar year - 1998

Malawi Tobacco Exports by country destination							
Country	Tobacco Types(Metric Tons)						Total
	Burley	Flue cured	NDDF	Oriental	Sun/Air	SDF	
U.S.A.	22,616	825	0	0	0	0	23,465
Germany	16,291	763	328	568	10	0	17,978
Switzerland	14,248	1,896	38	276	0	0	16,475
Japan	4,732	1,316	0	0	0	0	6,055
Netherlands	2,862	1,434	1,425	0	40	131	5,898
Spain	4,345	0	267	0	0	0	4,617
Czech Republic	4,443	0	0	0	0	0	4,448
Hungary	2,562	1,574	0	0	0	0	4,140
Poland	2,017	1,091	0	0	0	0	3,112
Egypt	1,166	0	1,574	0	0	0	2,743
Turkey	2,670	0	0	0	0	0	2,673
China	0	2,500	0	0	0	0	2,502
R.S.A	1,136	921	245	0	178	0	2,483
United Kingdom	541	1,582	65	0	112	0	2,303
France	852	762	285	16	0	0	1,917
Italy	1,180	301	0	0	0	0	1,483
Belgium	529	94	815	0	0	0	1,440
Portugal	1,298	101	0	14	0	0	1,414
Brazil	1,151	0	123	0	0	0	1,276
Austria	541	349	328	0	0	0	1,219
Ukraine	1,195	0	0	0	0	0	1,197
Argentina	1,020	0	60	0	0	0	1,082
Australia	279	580	39	0	0	0	899
Denmark	578	225	44	0	34	0	882
Morocco	800	0	0	0	0	0	801
Ireland	600	0	111	0	0	0	711
Singapore	0	605	0	0	0	0	605
Jordan	580	0	0	0	0	0	581
Croatia	561	0	10	0	0	0	572
New Zealand	108	423	10	0	2	0	543
Indonesia	475	58	0	0	0	0	533
Philippines	519	0	0	0	0	0	519
Greece	510	0	0	0	0	0	510
Sweden	118	270	20	20	40	0	468
Zimbabwe	161	221	30	0	0	0	413

Malawi Tobacco Exports by country destination							
Tunisia	396	0	0	0	0	0	396
Bosnia- Herzegovina	192	0	112	0	0	0	304
Slovenia	198	0	0	0	0	0	198
Gambia	0	0	180	0	0	0	181
Puerto Rico	143	0	0	0	0	0	143
Norway	4	79	41	0	11	0	136
Venezuela	133	0	0	0	0	0	133
Canada	125	0	0	0	0	0	125
Iran	125	0	0	0	0	0	125
Papua N. Guinea	0	0	124	0	0	0	124
Mauritania	0	0	71	0	0	0	71
Peru	67	0	0	0	0	0	67
Senegal	0	0	66	0	0	0	66
Dominican Republic	54	0	3	0	0	0	56
Russia	53	0	0	0	0	0	54
Panama	0	51	0	0	0	0	51
Bangladesh	0	48	0	0	0	0	48
Solomon Islands	0	0	38	0	0	0	38
Costa Rica	32	0	0	0	0	0	32
Malaysia	20	0	0	0	0	0	20
Guatemala	19	0	0	0	0	0	19
Sierra Leone	0	0	27	0	0	0	27
Togo	0	0	18	0	0	0	18
Gabon	0	10	10	0	0	0	20
Seychelles	0	0	0	0	0	0	0
Dakar	0	0	9	0	0	0	9
Conakry	0	0	9	0	0	0	9
Guinea	0	0	9	0	0	0	9
United Arab Emirates	0	0	9	0	0	0	9
Ecuador	9	0	0	0	0	0	9
	0	0	0	0	0	0	0
Total	94,255	18,078	6,545	894	428	131	120,450

Malawi Tobacco Exports by destination country

Calendar Year - 1999

Malawi Tobacco Exports by destination country							
Country	Tobacco Types (Metric Tons)						Total
	Burley	Flue Cured	NDDF	Oriental	Sun/Air	SDF	
Germany	15,696	902	348	14	15	0	16,991
U.S.A.	14,066	1,142	234	0	0	0	15,457
Switzerland	6,382	911	4	67	0	0	7,372
Netherlands	2,205	1,562	1,610	0	48	169	5,601
Egypt	3,212	0	2,108	0	0	0	5,325
Japan	4,404	465	0	0	0	0	4,873
Spain	3,715	0	174	0	0	0	3,893
Italy	3,459	79	0	0	0	0	3,542
Turkey	3,183	178	0	0	0	0	3,364
United Kingdom	628	2,465	32	0	85	0	3,214
R.S.A	758	699	242	0	104	48	1,852
Hungary	298	1,333	0	0	0	0	1,633
Greece	1,307	198	0	0	0	0	1,506
France	822	523	27	16	0	0	1,389
Zimbabwe	66	1,150	16	23	23	0	1,280
Belgium	344	162	633	16	0	0	1,156
Portugal	1,001	120	0	0	0	0	1,122
Croatia	989	0	0	0	0	0	990
Australia	307	577	10	0	0	0	896
Jordan	483	403	0	0	0	0	887
Venezuela	854	0	0	0	0	0	855
Denmark	359	403	68	0	20	0	850
China	0	845	0	0	0	0	846
Ukraine	323	484	0	0	0	0	807
Romania	713	0	0	0	0	0	714
Canada	517	0	0	0	0	0	517
Philippines	495	0	0	0	0	0	496
Bulgaria	386	0	0	0	0	0	386
Peru	359	0	0	0	0	0	360
Tunis	350	0	0	0	0	0	350
Austria	272	10	61	0	0	0	342
Czech Republic	53	257	0	0	0	0	311
New Zealand	67	202	5	0	5	0	279
Sweden	49	118	48	18	16	0	250
Indonesia	139	77	0	0	0	0	216

Malawi Tobacco Exports by destination country							
Bosnia Herzegovina	202	0	0	0	0	0	202
Morocco	200	0	0	0	0	0	200
Puerto Rico	125	0	0	0	0	73	198
Papua N. Guinea	0	0	196	0	0	0	196
Dominican Republic	156	0	0	0	0	0	156
Brazil	154	0	0	0	0	0	154
Guatemala	151	0	0	0	0	0	151
Singapore	0	0	0	0	0	0	0
Argentina	143	150	0	0	0	0	293
Malaysia	128	0	0	0	0	0	129
Mauritania	0	0	118	0	0	0	118
Canary Islands	52	0	57	0	0	0	108
Iran	107	0	0	0	0	0	107
Costa Rica	99	0	0	0	0	0	100
Luxembourg	99	0	0	0	0	0	99
Bangladesh	0	96	0	0	0	0	96
Russia	94	0	0	0	0	0	94
Guinea	69	0	74	0	0	0	143
Poland	9	0	0	0	0	0	9
Norway	0	59	0	0	0	0	59
Gambia	0	0	66	0	0	0	66
Botswana	0	0	66	0	0	0	66
Solomon Islands	0	0	45	0	0	0	45
Senegal	0	0	43	0	0	0	43
Gabon	0	0	30	0	0	0	30
Cote D'Ivoire	0	0	27	0	0	0	27
Sierra Leone	0	0	27	0	0	0	27
Liberia	0	0	12	0	0	0	12
Seychelles	0	10	0	0	0	0	10
	0	0	0	0	0	0	0
Total	70,046	15,581	6,380	154	316	290	92,859

Stocks

Closing stocks in 1998 by variety, 1999 and preliminary forecast for 2000.			
	Dec.1998	Dec.1999	2000 Estimate
Flue Cured			
Volume(Metric Tons)	2990	2080	790
Value(US\$millions)	7.24	4.16	1.34
Burley			
Volume(Metric Tons)	20290	18730	3130
Value(US\$ millions)	48.49	49.63	8.14
NDDF			
Volume(Metric tons)	2400	4070	2450
Value(US\$millions)	6.65	10.79	6.13
Sun/Air			
Volume(Metric Tons)	120	390	150
Value(US\$ millions)	0.3	1.03	0.33
SDF			
Volume(Metric Tons)	150	890	330
Value(US\$ millions)	0.37	1.87	0.5
Oriental			
Volume(Metric Tons)	80	100	160
Value (US\$mill)	0.23	0.26	2
Total			
Volume(Metric tons)	26030	26260	7010
Value(US \$ millions)	63.28	67.73	18.43

Stocks are expected to decline in year 2000 from the 1998/99 high levels due to market requirements by the international buyers to meet the quota of 12,000 tons.

Policy

PRODUCTION

In the past six years there have been many GOM policy changes, mostly directed toward increasing equity and participation by small holders in the tobacco markets and auction floors.

Price Support Policies

There are no GOM price support policies for the sales and export of tobacco. The open auction prices are based on international prices, as adjusted for the quality of Malawi's tobacco, and the very high transportation costs from Malawi to export ports. The GOM does not have any tobacco processing support policies.

Producer Credit

Credit, including seasonal financing, is a constraint, primarily for small holders, but also directly restricting production by the smaller estates. Since the GOM has eliminated most of its subsidies, the Tobacco Association of Malawi (TAMA) established a Fertilizer Loan Scheme (FLS). This program does not subsidize the price of fertilizer, but it does help small and medium-sized estates to obtain loans from commercial banks and fertilizer dealers.

The FLS has two options. Under the first, a grower would obtain a loan from the Malawi Rural Finance Company (MRFC) without having to pay the normal 10 percent collateral deposit. That is because TAMA deposited funds to help farmers who could not afford the initial deposit. MRFC, formerly a GOM parastatal, now operates as a commercial lender specializing in rural development.

Under the second option of the FLS, a grower can obtain fertilizer from private and parastatal suppliers without paying a deposit. TAMA has agreed to be the guarantor for loans from those organizations to the farmers. Most of the farmers participating in the FLS used the second option. Fertilizer suppliers participating in this option of the FLS included Norsk Hydro (private company), ADMARC (GOM parastatal), and the Smallholder Farmers Fertilizer Revolving Fund (SFFRF).

TAMA was the guarantor of about 7 million kwacha worth of loans in 1994/95, about 72 million kwacha in 1995/96, almost 300 million kwacha in 1996/97, and about 60-70 million kwacha in 1997/98. Loan repayment has been a concern as loans totaling 17 million kwacha remain to be paid back from the 1994/95 season. Reportedly, over half of the loans from the 1996/97 season are still outstanding. TAMA tries to ensure that the suppliers receive their payments direct from auction floor receipts. However, some (of the less than completely honest) estate owners and small holders sell their tobacco through intermediate buyers so the loans do not get repaid.

The SFFRF, set up as a GOM parastatal, is a multilateral and bilateral donor-sponsored fund to obtain and distribute fertilizer to small growers. Under donor pressure and a desire to reduce the influence of the SFFRF, (as the private sector is increasingly able to distribute fertilizer without any outside intervention) the SFFRF is being reorganized and should, in theory, become more like a commercial company.

Smallholder Burley Production Program

After many years of encouragement by outside observers, the Government of Malawi authorized small holders to produce burley tobacco. The Ministry of Agriculture (MOA) encouraged small holders to form credit and production clubs of 15-25 farmers to pool their resources so they could reach the minimum amount (3,000 kg) allowed to be sold on the auction floor. The clubs can more easily arrange credit, seeds, extension visits, and diversification into other crops such as chiles, paprika and other horticultural commodities. The Minister of Agriculture recently said that his number one policy is to ensure that smallholder farmers received unhindered

attention in transacting their businesses.

Marketing

Tobacco Leaf Buyers

LEAF BUYERS -- All the major international tobacco leaf buyers are represented in Malawi. The largest buyer in Malawi is Limbe Leaf, a joint company of Universal Leaf (U.S. based) and Press Agriculture (Malawi firm). Limbe leaf buys 55% of the burley grown, 49% of the flue cured, 35% of the dark fired and 100% of the Oriental tobacco. Other buyers include Standard Commercial (Stancom - U.S. based), Dimon (Debrill and Monk - U.S. based). In March 1997, Dimon purchased all the world-wide assets of the Intabex Group (U.K. based). So, the number of major international leaf buyers, worldwide and in Malawi, has declined from four to just three.

TAMA and TCC are very concerned about the low number of major leaf buyers. However, several new, relatively small, companies have started buying leaf. The companies are Premier Leaf (a new Malawi company), another is Africaleaf, and a new leaf buying and exporting company formed by ADMARC called TMC -- Tobacco Marketing Company.

There are several other buyers (Edward Goodwin and Wallace) who are active in the Limbe auction and specialize in dark fired tobacco. As part of the Intabex purchase, the Edward Goodwin company is now owned by Dimon, but still operates as a separate cost center.

The international buyers process the tobacco into stems and strips, box it, and export it by truck to Durban, South Africa or overland through Mozambique to Beira or Ncala. Transportation costs are high, but the alternative routes out of Malawi (Tanzania) are not efficient or much cheaper. Most of Malawi's tobacco goes to the big three international cigarette manufacturers RJR, Philip Morris, and BAT. The remainder is used by regional manufacturers such as Rothsmann, the Japanese Tobacco Agency, and the Chinese, among many other manufacturers.

All the processing facilities in Malawi are owned by the major companies. Limbe Leaf has three processing lines, Stancom has two processing lines, and Dimon has added one new one processing line to join their existing facility. Africaleaf will be processing its tobacco at Stancom, while TMC will be processing its tobacco at Limbe Leaf's processing facilities.

Tobacco Auction System

Auction Holding Ltd (AHL) is a quasi-private entity with some large shareholders (including the GOM ADMARC parastatal marketing agency). A large part of the auction business is organizing all the logistics of delivery, display, and transport of the tobacco bales. Representatives of all the other tobacco entities (TCC, TEAM, TAMA) sit on the board of AHL. AHL works hard to be impartial -- as auctioneers they are the go-between the buyers and sellers.

AHL has three auction floors (Mzuzu, Lilongwe, and Limbe). The Lilongwe auction house sells on average 12,000 bales of tobacco each day (the maximum is 15,000, but that exceeds processing capacity), while the Limbe floor is averaging 4-5,000 bales per day, and the Mzuzu floor about 4-5,000 bales per day, but it only

operates 3 or 4 days per week. The major leaf buyers want to limit the daily sales to about 22,000 bales per day so processing facilities are not overloaded.

The bales are about 80 to 110 kg. The Lilongwe auction floor holds about 7,000 bales. The sales, start at 7:30 a.m. and run to about noon, five days a week. The Lilongwe auction floor, receiving sheds, and storage area are about eight football fields under a roof. The Lilongwe auction floor is the second largest in Africa after Zimbabwe.

AHL has implemented a series of satellite depots so farmers could deliver tobacco to the depots, but the farmers still have to pay for transportation to the nearest auction floor. The Minister of Agriculture decreed that all three floors would sell all types of tobacco. While that action will make it easier for the farmers, the announcement made it harder for the leaf companies (and AHL) to adjust.

AHL maintains over 64,000 different accounts for the farmers, clubs, intermediate buyers and all the other stakeholders in the tobacco business. All estates and smallholder growers of tobacco are given a registration number for the auction. AHL records the registration number, the name of the grower, the banking arrangements, and names of various creditors (packing, transportation, bank loans) that are also paid when the tobacco is sold. AHL tries to make sure that the farmers' banks receive the funds by the day following the sale. AHL pays the farmers in dollars (the auctions are conducted in dollars), but also lists the amounts in Malawi kwacha at the daily exchange rate set by the Reserve Bank (the Central Bank of Malawi).

AHL, in conjunction with all the major tobacco stakeholders, develops a delivery quota so everyone gets a chance to deliver part of their crop throughout the selling season. At times, the delivery system is under strain, but the start of the 1998 auction was smooth (from a delivery point of view).

Overhead Fees

Following the 1996 season and to help finance the Mzuzu auction floor, AHL asked TCC for an increase in their auction fee from 3.75 percent to 4.00 percent. However, TCC only approved an increase to 3.95 percent. The auction overhead is paid from a levy assessed on the gross proceeds from the sales.

In addition farmers (or intermediate buyers) pay other levies such as a hessian levy (for the burlap bag -- \$0.92 per bale), the TAMA levy (to support the group -- \$0.0085/kg (an increase in 1998) and to pay for tobacco classification -- \$0.0035/kg), the ARET (to pay for agriculture research and extension -- 1% of gross proceeds for flue-cured and burley tobacco, and 0.5% for dark fire cured tobaccos), the TCC levy (\$0.0013/kg), and others (depending on the grower, transportation, and financing arrangements).

While most of those fees appear small, with over 150,000,000 kg of tobacco sold in Malawi -- they add up. In addition to the increase that AHL requested in 1997, TAMA increased its fee from 0.65 cents per kilo to 0.85 cents per kilo in 1998.

Intermediate buyers pay a 7% deduction from gross proceeds as withholding tax. This is deducted by Auction Holdings Limited. Small holders are exempted from this tax deduction.